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DEPARTMENT OF STATE
BRIEFING MEMORANDUM

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January 28, 1975

To: The Secretary

From: William G. Hyland *WGH*

13/24

Nigeria: Erosion of Ties With the US?

Nigeria is concerned that several recent US actions may signify that the US has embarked on a policy of confrontation with oil exporters. If Nigerian leaders remain convinced of this, they may institute a low-key policy of reducing ties between the two countries.

As the largest exporter of oil to the US, Nigeria has considerable leverage over us. The latest (September) figures show Nigeria supplying 21.6 percent of US imports; in September 1973 the figure was 11.8 percent.

US Action on IBRD Loans

On January 21, Acting Foreign Minister Iyalla vigorously protested to Ambassador Reinhardt over the US abstention on five IBRD loans considered by the bank's directors in December. Characterizing the US action as "hostile," Iyalla made four points:

- Nigeria was "shocked" that the US abstained on loans for Nigerian agricultural development which are necessary to avoid starvation.
- The US abstention threatens Nigeria, since it was taken despite our appreciation both of the economic justification for the loan and of Nigerian needs, and implies that in the future these considerations will no longer guide US decisions.

NODIS REVIEW	
Cat. A	Caption removed; transferred to O/FADRC
Cat. B	Transferred to O/FADRC
Cat. C	Caption and priority removed by S/S
Reviewed by:	<i>John B. Brown</i>
Date:	<i>10 Jan 1975</i>

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- Although Nigeria had not joined the oil embargo despite the urging of "friends," and as yet has not considered using oil as a political weapon, the US had responded with indifference or hostile acts, culminating in the IBRD vote.
- Since countries like Kuwait and Libya are unlikely to need IBRD facilities, Nigeria could only conclude that US policy was directed at other OPEC countries whose liquidity was temporary and needed for local development.

Iyalla's presentation left little doubt that his words had been carefully chosen--and perhaps cleared by General Gowon. We know from the British that Gowon asked Foreign Secretary Callaghan to convey a protest on the same subject to you personally.

Uneasy Relationship

The IBRD loans are only one of a number of oil-related issues which trouble the Nigerians. They are also disturbed by:

- the restrictions on OPEC members in the Trade Act;
- US efforts to organize consumer unity before engaging in talks with oil producers; and
- your statement on military action in the Business Week interview. Iyalla actually ended his conversation with Ambassador Reinhardt with a sardonic reference to a US "invasion," and the Nigerian press has kept up a drumfire of protest over the Business Week remarks.

What the Nigerians probably see as a confrontation building over oil adds a new element of tension to a basically troubled bilateral relationship. Overall, Nigerians probably view the US as the industrial power with which they have the most fundamental disagreements.

Not only do Nigeria and the US disagree over a wide gamut of non-aligned and African issues, but suspicions linger from Nigerian perceptions of the US role in the

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Nigerian civil war. Only last year, this consideration influenced a major Nigerian arms procurement decision. The Nigerians chose to buy MIG-21s in preference to F-5s, even though they had concluded that the latter was the better aircraft. The decision was made on the grounds that the US record during the Nigerian civil war showed us to be an "unreliable" supplier.

Likely Reaction

Nigeria's official reaction is likely to be low key since, on past form, Lagos prefers private protests to public polemics. The new difficulties in bilateral relations, however, will increase Nigeria's determination to gain effective control over all phases of its petroleum industry—including the destination of exports.

Iyalla implicitly warned that our access to oil may become linked to the state of bilateral relations. A dramatic Nigerian decision to punish the US by slashing oil supplies is unlikely, but a conscious Nigerian decision to reduce or put a ceiling on the amount going to the US (now 37 percent of production) cannot be excluded. Bilateral tensions may also surface in petty harassment of US oil companies operating in Nigeria.

Nigerian decision-making is a tortuous and cautious process, ill-equipped to orchestrate dramatic initiatives and abrupt changes in direction. It is admirably suited, however, to frustrate US hopes to participate to any substantial degree in the potential business resulting from Nigeria's development plans.

Several economic considerations will make it easier for the Nigerians to reduce their dependence on US petroleum markets:

- They are increasingly sensitive to the wasting nature of their petroleum reserves; proved reserves are estimated at around 15 years at current rates of production.
- Over the last year Nigeria has built up foreign currency reserves of over \$4 billion; this oil bonanza has for the moment overwhelmed the ability

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of Nigeria's economic planners to channel resources into development projects. Nigerians are aware of the economic penalties of holding large liquid reserves in inflationary times.

Thus, if the Nigerians remain convinced that the US has embarked on what they consider a hostile policy, their probable response will be to chip away at all aspects of US-Nigerian relations including access to oil.

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Drafted: INR/RAA:WBYoung:jmt
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